EconoFact Chats: Lessons From Research on Reducing Child Poverty

Hilary Hoynes, University of California at Berkeley

Published on 31st May 2021

Michael Klein:

I'm Michael Klein, Executive Editor of EconoFact, a nonpartisan web-based publication of the Fletcher School at Tufts University. At EconoFact we bring key facts and incisive analysis to the national debate on economic and social policies publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

In 2019 in the United States, more than 10 million children lived in poverty. That's more than one out of every seventh child. And these statistics have likely gotten worse since the onset of the recession due to the COVID-19 pandemic. Children who grew up in poverty start life with two strikes against them. A 2019 report from the National Academy of Sciences concluded that child poverty causes physical and mental health problems and results in worse educational outcomes, worse employment outcomes, and a greater likelihood of risky behavior, delinquency and criminal behavior in adolescence and adulthood. So there are clearly wide societal benefits, not to mention deep ethical reasons for reducing child poverty.

Michael Klein:

That National Academy report suggests that the child poverty rate in the United States could be cut in half in 10 years. One of the authors of that report is my guest on EconoFact Chats, Hilary Hoynes. Hilary is a professor at the University of California Berkeley. Among other notable honors, she's a member of the American Academy of Arts and Sciences, has served on the American Economic Association's Executive Committee, and the Advisory Committee for the National Science Foundation, and in 2014, she received the Carolyn Shaw Bell Award from the Committee on the Status of Women in the Economics Profession.

Michael Klein:

Hilary, welcome to EconoFact Chats.

Hilary Hoynes:

Thanks so much for having me, Michael. I'm delighted to be here.

Michael Klein:

It's great to have you on the show.

Michael Klein:

Hilary, there's a saying that the poor will always be among us. But in this case, have poverty rates been declining over time, and more specifically for today's conversation, what's happened to the rates of child poverty over time?

Hilary Hoynes:

Well, thanks for that question. I think as we'll talk about, poverty rates do not have to be among us. There are things that policy can do to address them in very strong and robust way. But to speak to the issue of child poverty or poverty more generally in America over the decades that we've been measuring it, essentially talking about child poverty we could sort of describe the periods since the early 1960s when we first started measuring poverty as being periods of quite rapid progress in episodes, followed by periods of stagnation. In the most recent time periods we saw quite dramatic reductions in child poverty starting in the early to mid 1990s through the end of that strong economic expansion of the late 1990s, followed by a decade or more of relative stagnation of child poverty with some improvement in child poverty near the very last few years leading into the COVID crisis.

Hilary Hoynes:

So that sort of describes the lay of the land where there's two things that seem to be most prominent when we see periods of declines and poverty, either expansions to policies that directly target reducing poverty, and second are very strong labor markets, in particular in the time period where we see wage growth in a strong labor market.

Michael Klein:

We have an EconoFact memo with Jeff Fuhrer about the Fed's new framework, which is an attempt to allow the economy to run hotter for longer to help lower inequality and would also lower poverty rates. Hilary, how does the United States match up with other countries when it comes to rates of child poverty? Are we an outlier?

Hilary Hoynes:

Yes. In short, we are an outlier, as we are on so many things with respect to inequality in the United States. There are two things that we see very strikingly in the data. One is that poverty rates are consistently higher in the United States than they are in other countries, particularly in OECD comparison countries, although less so for the elderly. For elderly Americans, our poverty rates are more on par with other countries.

Michael Klein:

Is that because of Social Security?

Hilary Hoynes:

Primarily because of Social Security. In fact, to get back to your earlier question about what has happened to poverty rates over time, back in the early 60s when we first started measuring poverty rates, the elderly was the demographic group with the highest poverty rates in America. And then there was quite dramatic expansions in Social Security in the mid to late 60s and early 70s, and those poverty rates just absolutely plummeted. And today we're in a place where the highest demographic group in poverty rates is children. So the pattern has really changed.

Hilary Hoynes:

Part of what we can talk about today is that policy matters. We have higher poverty rates in the United States for children than in comparison countries, and we also spend less on family assistance, as a percent of GDP. So we're an outlier in higher poverty rates, and in lower spending, and those things are obviously related to one another.

Michael Klein:

I imagine that the overall child poverty numbers for the United States that you're citing mask big differences by race and ethnicity, is that correct?

Hilary Hoynes:

Yes. It very much reflects the pattern of disadvantage that we see more generally in the United States. We see quite higher rates of poverty among children who are Black, Latinx. Also you see patterns where children who live in families with parents with lower education levels, and non-citizen parents, children who are in families with non-citizen parents, those are the groups where we tend to see the highest rates of poverty among children in the United States.

Michael Klein:

In the introduction, I alluded to some of the consequences of child poverty. Can you elaborate on that short list that I mentioned?

Hilary Hoynes:

Well, that's an area where our National Academy of Sciences report really dug into the evidence. We've long seen a strong correlation between child poverty, family resources, and childhood and life cycle outcomes for the children, but it's only been much more recently that we've really accumulated a body of evidence that really shows quite strikingly, the causal link between the lack of resources and adverse outcomes. There's a wide range of outcomes. We see that children that are raised in families that are poor, tend to do worse in school. They tend to have worse health outcomes. They tend to have lower rates of completed education, lower earnings in adulthood, higher rates of mortality.

Hilary Hoynes:

It's quite a striking pattern across the life cycle. A growing body of evidence is showing us that this is something that is causally related to income, as opposed to the many things in the United States that we see correlated with that; neighborhoods, schools and other factors that we know also contribute to intergenerational outcomes.

Michael Klein:

I had Lant Pritchett on the show, and he was talking about poverty, but in terms of international poverty. He said, "There aren't poor people as much as poor places, that people growing up in certain places are very disadvantaged regardless of their own abilities." I guess that's what you're getting at with causal links, right? It's not that people are inherently sort of targeted or will end up being poor because of who they are; it's because of the circumstances in which they grow up. That's what you mean by causal, right?

Hilary Hoynes:

That's exactly right. With respect to the characteristics of the family and the environment, the amount of resources that children have available to them for adequate nutrition and opportunity, as well as the other things that exist outside of the home environment; the schools, the neighborhoods, the segregation, and other sorts of things that we see, we know are all part of what affects the lifetime trajectory.

Michael Klein:

That goes back to the quote I had at the beginning, "The poor will always be among us." I looked it up. That is a verse from the New Testament. People often use that as an excuse for accepting poverty, but that's a misinterpretation. Jesus said the poor will always be among us, but he seemed to be referring to a verse in Deuteronomy that was immediately followed by, "Therefore I command you to be open-handed towards your brothers and towards the poor and needy in your land." How in modern societies are we open-handed towards the poor?

Hilary Hoynes:

Well, there's a quite important range of policies that rich countries engage in to try to reduce poverty. Many of those policies are targeted at families with children. Other policies might be targeted at other vulnerable groups; the elderly, the disabled and so on. With respect to our conversation about child poverty, in the United States the most important programs that we have that are directly aimed at reducing child poverty are the Earned Income Tax Credit and the Child Tax Credit, and the Food Stamp Program. Those are the two programs that are the most important programs that we have in the United States.

Michael Klein:

We have some EconoFact memos about the Earned Income Tax Credit. That's the cleverly designed program where you keep getting payments from the government, but they're reduced as you earn more, so it takes away some of the disincentives of working. We also have quite a few programs on SNAP, Supplemental Nutrition Assistance Program, that used to be called Food Stamps and most people, I guess, still think of it as that. We have a number of memos on both of those. Those have been shown to be effective. Have other programs been equally effective?

Hilary Hoynes:

Well, the key thing about the Earned Income Tax Credit and the SNAP program is that they're both entitlements. What that means is that if there's demand, if folks who are eligible for these programs, they are funded in full to meet demand. In fact, the Food Stamp Program is a really good example of a program that is very counter cyclical in its structure that as incomes are reduced and people fall into eligibility, the program meets demand without limits.

Hilary Hoynes:

There's other parts of our social safety net that are not entitlements. Importantly, that is true of the housing assistance programs, housing vouchers, which are a very important anti-poverty program for families that receive it, but I think only about one in five eligible families receive the housing vouchers and some families spend years and years on waiting lists to come up in eligibility. So it's not necessarily about the structure of the program as being ineffective, but it's about the programs not being fully funded.

Hilary Hoynes:

But with respect to children, the two programs that are largest anti-poverty programs in the United States are the Earned Income Tax Credit and the SNAP Program. After that actually comes SSI, which is a cash welfare program for disabled children and adults. And then Social Security because many children live in families that have elders that are receiving Social Security and poverty is a family resource measure. So interestingly, those are the two policies that are the next most important anti-poverty programs in current US policy for children.

Michael Klein:

The National Academy of Sciences report that you co-authored that I referred to earlier, discusses reducing child poverty by 50% in a decade. That seems like a really ambitious goal. Is it attainable?

Hilary Hoynes:

In a word, yes, it absolutely is attainable. Just to mention a little bit about our National Academy report, it was actually the statement of task for the committee was to advance policies that number one, were evidence-based and number two, could reduce child poverty by 50% and deep poverty, which is defined as having income below 50% of the poverty threshold within 10 years. We weren't contemplating policies that say preschool and improving education, which would improve poverty rates in the long run, we were explicitly given a statement of task to have short-run policy responses. So mostly we're talking about the social safety net in the solution space.

Hilary Hoynes:

What we found was we advanced recommendations around what we called packages, that is groups of policies that together would reduce child poverty by half. In particular, we advanced a combination of expanding the Earned Income Tax Credit and SNAP, as we talked about, two programs that are shown to be very effective and we should do more of, but we combined that with an expanded Child Tax Credit that in fact looks very similar to the Child Tax Credit that was passed for one year in Biden's American Rescue Plan. The combination of those three policies that we advanced, our Urban Institute TRIM Model predicted would reduce child poverty by half within 10 years.

Hilary Hoynes:

The Biden plan that came out as part of the American Rescue Plan and is now embedded in the American Family Plan, the second infrastructure part two, continues to fund this expanded Child Tax Credit for additional years. So it is an extremely important policy change to the United States that gets us on par with many other advanced countries, what are typically called child allowances in other countries.

Michael Klein:

There's a lot of discussion now about work incentives, but also about the lack of childcare. They're also concerned about the lack of infrastructure, for example, adequate public transportation that enables people living in inner cities to get to jobs that are outside the city center. These issues have been obviously exacerbated by COVID. How does one address all these intersecting challenges? Is it insufficient to just take a piecemeal approach, even though that might be more politically viable?

Hilary Hoynes:

Well, I do think that a multifaceted approach is the most effective one. Just to pull a few things out of your comments there, first of all, the biggest determinant of a family being poor is actually not what the policy setting is; it's about how much earnings folks have. So to the extent to which we build an infrastructure in this country that makes it possible for all families to be engaged in the labor market to the extent to which that is desirable, we should be doing that. That means childcare. That means having safe places for their children to thrive. And make it easy to get to work, as you mentioned around transportation. So earnings matters.

Hilary Hoynes:

There is a lot of discussion around work incentives. We've got decades of evidence that really gives us a very clear idea about how different ways of trying to reduce poverty are likely to influence work along the way. Just to pull out one aspect of that; in this new expanded Child Tax Credit that was part of the American Rescue Plan that is predicted to reduce child poverty by 40% or more this year, it's something very close to universal basic income for children. What does that mean, or at least a basic income for children?

Hilary Hoynes:

The reason why it's very similar to that is that if you've got a family that has one child under the age of six, they are guaranteed through this program to get $3,600 per year, half of that offered at a monthly basis, and it is not phased out until your income is $100,000 a year or more depending on whether you're a married couple or a single taxpayer, and it's phased out at a fairly slow rate. That means that you're not "taxed on dollar for dollar" as you start to increase your work. It really does sort of provide a floor.

Hilary Hoynes:

So within labor economics parlance, this is a program that primarily is going to operate through an income effect. It's not changing the return to work because the tax credit doesn't change as your earnings increase until it gets fairly high up in the income distribution. And so that design feature is very much advanced as a way to provide a floor without providing large work disincentives.

Michael Klein:

That gets to another point, a much broader point as it turns out. Some of the issues related to child poverty come down to the paternalism of the state. For example, should we just be giving parents money to help support their children as some of these new programs are doing, or should funds be mandated to be used in certain ways, for example, for food, and even for only certain types of food? What's your view on the role of the state in determining how money provided to the poor should be spent?

Hilary Hoynes:

My view on this is if the market is working well, say the market for food, or other kinds of targeted programs, then I think a less restrictive benefit structure is better. The more unrestricted the nature of the social safety net, the more families can decide for themselves, what is the most important use of the funds. It seems to me that the very paternalistic safety net for poor families with children in the United States, which interestingly, the safety net for the elderly is pretty cash oriented. Social Security being very fundamental on that in addition to SSI, another cash benefit program for poor elderly. But our social safety net for poor families with children has evolved to be quite paternalistic in the United States. It seems to me that this is in part a reflection of the structural racism that has made its way in to our policies and this kind of view that poor folks don't know how to make good decisions for themselves, and therefore we need to help guide them towards making those decisions.

Hilary Hoynes:

I think that there's some rethinking about that as being wise policy. I think we should really advance more unrestricted payments. Also the more paternalistic the program, the more administratively complex they are for families to engage with, and that we know reduces access and reduces access in ways that is not very equitable.

Michael Klein:

Hilary, you mentioned wise policies. How has your research and the research of others helped shaped anti-poverty programs or even affected the existence of these programs? Have the conclusions of research shifted over time, and if so, has this been matched by a concomitant shift in policies, or is there enough variety in research results so politicians can basically cherry pick among them to support a policy that they would want anyway?

Hilary Hoynes:

That is a really great question that I have been thinking about quite a lot. I think I have a couple of thoughts on that. There will always be the possibility that people can cherry pick results. It's just rare that everything is going to say X instead of not X, but we as researchers, it is necessary for us to provide the evidence that helps to make wise policy. Let me give you one concrete example of that.

Hilary Hoynes:

When I got my PhD in the early 1990s, and I'd essentially been studying poverty in America my entire career, economists focused only on measuring the costs of these policies, [inaudible 00:24:13] to spending most of our time talking about work disincentives, moral hazard, and thinking about the costs of the social safety net without really thinking about what the benefits were. And so if we present ourselves as quantifying the costs, and that's what we spend our time doing, it's a pretty unbalanced set of facts.

Hilary Hoynes:

During the mid to late 1990s led by amazing scholars like Janet Curry and John Gruber, people started to think about quantifying the benefits of social safety net programs. That was a really important advance in the research. That early work focused primarily on the contemporaneous benefits. For example, if a mother has access to Medicaid when she's pregnant, how much more likely is her child when born to be of healthy birth weight? So these very important, but short run measures, like you observe giving more Food Stamps to individuals and do they eat a healthier diet. Important, but short run. Where the work is really advanced in the last five to 10 years is in expanding our quantification of the benefits with a focus in the long run.

Hilary Hoynes:

For such a long time, all of the attention on these programs for poor families was focused on the parents. Are the parents going to work? Are they good parents? I think by this new research that quantifies the following question, if we give families more resources when children are young, how does that change their life trajectory? How does that change their completed education? And what their health and economic well-being is in adulthood? That long run lens and quantification of the benefits and more expansive view of the benefits of social policy, I think may have allowed us to just change the focus a little bit in this policy space to remember that these are programs aimed at children, as opposed to that sort of older emphasis on the behavior of the adults. I think that that's helped us advance the policy.

Michael Klein:

Well Hilary, thank you very much that, and thank you for your research on this really important topic, and thanks for your insights on child poverty, a topic that has deep consequences for both the economy and the moral standing of the country.

Hilary Hoynes:

Thank you very much. I'm happy to be here.

Michael Klein:

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